REPORT ON EXAMINATION

OF THE

BROOME CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT	AUGUST 23, 2013
EXAMINER	DILBRINA BELGRAVE

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

August 23, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30995 dated March 25, 2013, attached hereto, I have made an examination into the condition and affairs of Broome Co-operative Insurance Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Broome Co-operative Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 1923 Vestal Parkway East, Vestal NY 13851.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was organized under the laws of the State of New York on January 20, 1887 as the Broome County Farmers' Fire Relief Association ("Association"), for the purpose of transacting business as an assessment cooperative fire insurance association in Broome County of New York State.

In 1951, the Association merged with Broome County Patrons' Fire Relief Association of Whitney Point, New York and the surviving corporation resulting from said merger became the Broome County Co-operative Fire Insurance Company.

On March 27, 2002, approval was given by the Department for the Company to change its name from the "Broome County Co-operative Fire Insurance Company" to the "Broome Cooperative Insurance Company."

A. Management

Pursuant to the Company's amended and restated charter and by-laws, management of the Company is vested in a board of directors consisting of not less than nine nor more than fourteen members. As of the examination date, the board of directors was comprised of nine members, divided into three groups with one group being elected at each annual policyholders' meeting for a term of three years.

The board met at least four times during each calendar year. At December 31, 2012, the board of directors was comprised of the nine members:

Name and Residence	Principal Business Affiliation
J. Paul Cavataio, Owego, NY	Owner, Agway stores
Steven D. Contento Windsor, NY	Director, Ross Park Zoo
Kimberly S. Chidester Lisle, NY	Owner, Lakeside Bookkeeping & Tax Service
Clifford W. Crouch Guilford, NY	New York State Assemblyman
Michael T. Decker Whitney Point, NY	Broker, ERA Decker Realty
Debra K. Eaton-Turner Smithville Flats, NY	Bank Manager, NBT Bank
Ralph E. Kelsey Endicott, NY	Vice President, Tioga State Bank
Marc J. Palumbo Dryden, NY	Claims Adjuster, Larose & Palumbo Claim Service
John W. Salt Windsor, NY	Retired

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

Fiduciary Responsibilities of Officers

Upon review of expenses charged to Company issued credit cards, numerous instances were noted where the Company paid expenses incurred by senior managers for which the business purpose was not apparent, including daily meals as well as other non-business related items.

The payment by the Company of non-business related expenses of its managers is contrary to Sections 3 and 9 of the Company's Travel and Expense Policy, which states:

Section 3) Implementation and Responsibility:

7. Incur only expenses that are consistent with the business needs, and exercise care in determining appropriate expenditures;

Section 9) Meals and Entertainment:

1. Actual, reasonable, and necessary costs for meals will be reimbursed….

2. Entertainment expenses are reimbursable only with manager approval, and must meet the following conditions:

    a. The employee's specific assignment requires the entertainment of the Company's customers or potential customers, agents, or others as appropriate;

    b. The entertainment expense is fully receipted;

    c. Expenses are authorized by the employee's manager;

    d. The persons entertained, the place and the purpose of the entertainment must be clearly specified.

Further, such reimbursements are contrary to Section 1217 of the New York Insurance Law, which states:

> No domestic insurance company shall make any disbursement of $100 or more unless evidenced by a voucher signed by or on behalf of the payee as compensation for goods or services rendered for the company, and correctly describing the consideration for the payment….

Further, Section 715(h) of the Business Corporation Law states, in part:

> An officer shall perform his duties as an officer in good faith and with that degree of care which an ordinarily prudent person in a like position would use under similar circumstances.

The Company's board of directors has a fiduciary responsibility to monitor the Company's expenses to ensure that all expenses have a specified business purpose and that the Company is not paying personal expenses of its employees.

It is recommended that the Company implement control procedures to ensure that its funds are not used to pay for non-business related expenses of its managers pursuant to Section 1217 of the New York Insurance Law, Section 715(h) of the Business Corporation Law and the Company's own Travel and Expense Policy.

It is recommended that the Company's board of directors review all corporate credit card usage during the examination period and seek reimbursement from the managers of all expenses for which a specified business purpose is not demonstrated.

Limitation of Expenses

For calendar year 2012, the ratio of the Company's management expenses to its net premiums written was 43.0%. Section 6613(a) of the New York Insurance Law states:

> The expenses of management of any co-operative property/casualty insurance company shall not exceed in any one calendar year 42.5% of its net premiums written for such year. The term "net premiums written" means direct premiums written plus reinsurance assumed less return premiums and reinsurance ceded.

It is recommended that the Company comply with Section 6613(a) of the New York Insurance Law and monitor management expenses to ensure they do not exceed 42.5% of net premiums written.

As of December 31, 2012, the principal officers of the Company were as follows:

Name	Title
Steven J. Coffey	President
Steven D. Contento	Secretary/Treasurer
John W. Salt	Vice President
Marilyn B. Cole	Vice President
Siobhan G. Davey	Vice President
Crystal L. Terrell	Vice President

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in New York only. As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine

The Company is also licensed to accept and cede reinsurance provided in section 6606 of the New York Insurance Law.

The following schedule shows the direct premiums written by the Company for the period under examination

Calendar Year	New York State
2008	$5,733,416
2009	$5,795,157
2010	$5,670,298
2011	$5,709,029
2012	$6,329,475

Based on the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $100,000.

The company writes predominantly homeowner's and commercial multiple peril lines of business. All policies are assessable to a maximum of one year's premium.

The Company's distribution system is through approximately 80 agencies in 120 locations concentrated in the southern tier and central/eastern portion of New York State.

C. Reinsurance

During the period under examination, the Company did not assume reinsurance.

As of December 31, 2012, the Company had the following reinsurance program in place:

Type of treaty	Cession
Multiple Line Excess of Loss	
First Excess	
Property	$150,000 excess $150,000 each loss, each risk; limit $450,000 each loss occurrence.
Casualty	$200,000 excess $100,000 each loss occurrence.
Casualty & Property Combined	$150,000 excess $100,000 each loss occurrence (involving combined casualty and property loss).

Type of treaty	Cession
Second Excess	
Property	$200,000 excess $300,000 each loss, each risk; limit $600,000 each loss occurrence.
Casualty	$200,000 excess $300,000 each loss occurrence.
Third Excess	
Property	$750,000 excess $500,000 each loss, each risk; limit $1,500,000 each loss occurrence.
Casualty	$500,000 excess $500,000 each loss occurrence.
Property Catastrophe Excess of Loss	
First Layer	$300,000 excess $400,000 each loss occurrence or $600,000 all loss occurrences.
Second Layer	$800,000 excess $700,000 each loss occurrence or $1,600,000 all loss occurrences.
Third Layer	$4,500,000 excess $1,500,000 each loss occurrence or $9,000,000 all loss occurrences.
Casualty Clash	$1,000,000 excess $1,000,000 each loss occurrence.

As of December 31, 2012, the Company ceded 100% of its boiler and machinery net retained liability.

All of the Company's cessions during the period under examination were to authorized reinsurers. It was noted that since the prior examination, the Company increased its retention from $100,000 to $150,000 on its property lines and from $75,000 to $100,000 on its casualty lines.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law with the following exceptions.

Upon review of the above reinsurance agreements it was noted the all of the Company's excess of loss treaties were missing report and remittance provisions.

The NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62R, paragraph 8(d) requires reinsurance agreements to provide for reports of premiums and losses and payment of losses, no less frequently than on a quarterly basis, unless there is no activity during the period.

It is recommended that the Company comply with SSAP No 62R, paragraph 8(d) by amending its reinsurance agreements to include all required terms.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R.

D. Holding Company System

As of December 31, 2012, the Company was not a member of any holding company system. The Company was independent with no affiliation or pooling agreements in force at December 31, 2012.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	48%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	36%
Premiums in course of collection to surplus as regards policyholders	2%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$15,983,334	66.58%
Other underwriting expenses incurred	9,220,887	38.41
Net underwriting loss	(1,196,742)	(4.98)
Premiums earned	$24,007,479	100.00%

F. Accounts and Records

i. Loss Disclosure in the annual statement

Upon review of the Company’s loss data, it was found that in numerous instances, the Company reported its losses on the incorrect line on its filed annual statements. It is recommended that the Company report its loss data to the correct lines of business on its filed annual statements pursuant to the NAIC Annual Statement Instructions.

ii. Required Forms

New York Regulations 21 and 96, requires all insurers to maintain in their files, before a claim may be paid, the information contained in Part 1 of Form NYFC-1 for every fire claim made on a policy. In addition, for all claims which in the estimate of the insurer shall exceed $10,000, Part 2 of Form NYFC-1 must also be completed and maintained in the insurer's files. Upon review of a sample of claim files, it was noted that a few of the files were missing Part 2 of Form NYFC-1.

It is recommended that the Company obtain all required forms prior to making claim payments pursuant to Regulations 21 and 96.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$10,753,662	$ 0	$10,753,662
Common stocks	2,509,492		2,509,492
First liens - mortgage loans on real estate	44,116		44,116
Properties occupied by the company	859,388		859,388
Cash, cash equivalents and short-term investments	1,430,519		1,430,519
Investment income due and accrued	70,314		70,314
Uncollected premiums and agents' balances in the course of collection	198,441	7,640	190,801
Deferred premiums, agents' balances and installments booked but deferred and not yet due	561,391		561,391
Amounts recoverable from reinsurers	22,609		22,609
Current federal and foreign income tax recoverable and interest thereon	197,077		197,077
Net deferred tax asset	179,300		179,300
Furniture and equipment, including health care delivery assets	302,472	302,472	0
Aggregate write-ins for other than invested assets	22,591	22,591	0
Total assets	$17,151,372	$332,703	$16,818,669

Liabilities, surplus and other funds		
Liabilities		
Losses and loss adjustment expenses		$ 1,788,558
Commissions payable, contingent commissions and other similar charges		339,287
Other expenses (excluding taxes, licenses and fees)		237,747
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,958
Unearned premiums		3,286,320
Advance premium		114,329
Ceded reinsurance premiums payable (net of ceding commissions)		58,284
Total liabilities		$ 5,826,483
Surplus and other funds		
Required surplus	$ 100,000	
Unassigned funds (surplus)	10,892,186	
Surplus as regards policyholders		$10,992,186
Total liabilities, surplus and other funds		$16,818,669

Note: The Internal Revenue Service has completed its audit of the Company's Federal Income Tax return for tax year 2011 and has made a proposed adjustment based on an incorrect method of accruing expenses. The amount of the proposed adjustment is immaterial and no examination change has been made to this statement as a result of the proposed adjustment. The examiner is unaware of any potential exposure of the Company to any other tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased $858,735 during the 5-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income		
Premiums earned		$24,007,479
Deductions:		
Losses and loss adjustment expenses incurred	$15,983,334	
Other underwriting expenses incurred	9,220,887	
Total underwriting deductions		25,204,221
Net underwriting gain or (loss)		$(1,196,742)
Investment Income		
Net investment income earned	$ 1,107,762	
Net realized capital gain	284,873	
Net investment gain or (loss)		1,392,635
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ 6,983	
Finance and service charges not included in premiums	504,682	
Total other income		511,665
Net income before federal income taxes		707,558
Federal and foreign income taxes incurred		8,349
Net Income		$699,209

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2007			$10,133,451
Net income	$ 699,209		
Net unrealized capital gains or (losses)	238,554		
Change in net deferred income tax	69,300		
Change in non-admitted assets		$167,735	
Aggregate write-ins for gains and losses in surplus	19,407		
Total gains and losses	$1,026,470	$167,735	
Net increase (decrease) in surplus			$ 858,735
Surplus as regards policyholders per report on examination as of December 31, 2012			$10,992,186

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $1,788,588 is the same as reported by the Company as of December 31, 2012. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 17 recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that the Company comply with Section 6611(a)(3) of the New York Insurance Law by recording in written form all minutes of the principal committees of the board of directors. A similar recommendation was included in the prior report. The Company has complied with this recommendation.	4
ii.	It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law by having all investment transactions approved by the board of directors or by a committee thereof responsible for supervising such investments. The Company has complied with this recommendation.	5
iii.	It is recommended that the Company comply with its code of ethics by having each officer, director and employee complete and sign a conflict of interest statement each year that reveals all potential conflicts of interest. The Company has complied with this recommendation.	5
B.	Reinsurance	
i.	It is recommended that the Company comply with Section 1308(e)(1)(A) of the New York Insurance Law. A similar recommendation was included in the prior report. The Company has complied with this recommendation.	8
ii.	It is recommended that the Company comply with SSAP No. 62, paragraph 67(a) in all future filings with this Department, by disclosing any individual reinsurers and the unsecured aggregate recoverable amounts pertaining to that reinsurer when these amounts exceed three percent of its surplus. The Company has complied with this recommendation.	8

ITEM		PAGE NO.
iii.	It is recommended that the Company comply with the NAIC Annual Statement Instructions by completing Schedule F - Part 3 correctly in all future filings with this Department. The Company has complied with this recommendation.	9
C.	Accounts and Records	
i.	It is recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118. The Company has complied with this recommendation.	10
ii.	It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law by having all checks issued by the Company signed either by two officers or by one officer upon written order of another officer, except as provided by resolution of the corporation's board of directors or in its by-laws for handling of miscellaneous expenses. The Company has complied with this recommendation.	10
iii.	It is recommended that the Company comply with SSAP No. 26, paragraph 4 by recording the acquisition and disposal of bonds on the trade date. The Company has complied with this recommendation.	11
iv.	It is recommended that the Company purchase the appropriate amount of fidelity bond coverage in accordance with the NAIC Financial Condition Examiners Handbook. A similar recommendation was included in the prior report. The Company has complied with this recommendation.	11
v.	It is recommended that the Company amend its custodial agreement so that it contains all of the provisions and safeguards set forth in the NAIC Financial Condition Examiners Handbook. The Company has complied with this recommendation.	11

ITEM		PAGE NO.
vi.	It is recommended that the Company institute procedures that will immediately safeguard the Company's assets at the time that any employee is suspended or terminated, including but not limited to, immediately changing the signatories on bank accounts for which the suspended or terminated employee was a signatory.	12
	The Company has complied with this recommendation.	
vii.	It is recommended that the Company comply with SSAP No. 2, paragraph 3 and SSAP No. 26, paragraph 2 by properly reporting all long-term certificates of deposit as bonds in future statements submitted to this Department.	12
	The Company has complied with this recommendation.	
D.	Market Conduct	
i.	It is recommended that the Company comply with Section 3425(d)(1) of the New York Insurance Law by mailing or delivering notices of non-renewal at least 45 days but not more than 60 days in advance of the end of the policy period.	17
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company comply with Department Regulation 64, Section 216.4(c) by having the responsibility of the complaint department vested in a corporate officer who is also entrusted with the duty of executing the Insurance Department directives.	17
	The Company has complied with this recommendation.	
iii.	It is recommended that the Company comply with Department Regulation 64, Section 216.4(d) by furnishing the Department with the information requested in respect of a claim within 10 business days of receipt of any future inquiries from the Department.	17
	The Company has complied with this recommendation.	
iv.	It is recommended that the Company comply with Department Regulation 96 by reporting all fire losses in excess of $1,000 involving applicable property, except losses to vehicles registered for use on public highways, to the central organization involved in property loss registration within five business days following receipt of notice of loss.	18
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that the Company implement control procedures to ensure that its funds are not used to pay for non-business related expenses pursuant to Section 1217 of the New York Insurance Law, Section 715(h) of the Business Corporation Law and the Company's own Travel and Expense Policy.	5
ii.	It is recommended that the Company's board of directors review all corporate credit usage during the examination period and seek reimbursement of all expenses for which a specified business purpose is not demonstrated.	5
iii.	It is recommended that the Company comply with Section 6613(a) of the New York Insurance Law and monitor management expenses to ensure they do not exceed 42.5% of net premiums written.	6
B.	Reinsurance	
	It is recommended that the Company comply with SSAP No 62R, paragraph 8(d) by amending its reinsurance agreements to include all required terms.	9
C.	Accounts and Records	
i.	It is recommended that the Company report its loss data to the correct lines of business on its filed annual statements pursuant to the NAIC Annual Statement Instructions.	10
ii.	It is recommended that the Company obtain all required forms prior to making claim payments pursuant to Regulations 21 and 96.	10

Respectfully submitted,

/s/
Dilbrina Belgrave, AFE
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Dilbrina Belgrave, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/
Dilbrina Belgrave

Subscribed and sworn to before me

this__________ day of ___________________, 2013.

APPOINTMENT NO. ___*30995*___

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Dilbrina Belgrave

as a proper person to examine the affairs of the

BROOME CO-OPERATIVE INSURANCE COMPANY

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 25th day of March, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent